Plan Design Changes

Component	Option	Description	Analysis	Implications GASB Total	Implications GASB Annual	Implications FY05	Support Y / N
PPO Plan	Current	In addition to benefits of EPO plan, offers an out-of-network option.	Plan has very low participation (1 employee & 46 retirees) is currently extremely costly for retirees employees. The plan does not currently support itself costs would be higher going forward.				
	Proposed	Eliminate Plan	Replace plan with a high deductible/lower premium option. UHC EPO network is expansive and sufficiently covers all employees and retirees within 25 miles of their home. Out of area option is available.				
EPO Plan	Current	No deductible; $1000/$2000 out of pocket max. Competitive co-pays; 20% co-insurance	Plan has an expansive national network through UHC. Plan design is extremely competitive with other offerings in both private public sector. Comparing mock 2005 rates with other cities current 2004 rates, the plan remains competitive with other offerings. All active employees currently enrolled are in the EPO plan (with the exception of 1) and 90% of all retirees.				
	Proposed	Retain Plan					
High Deductible Plan	Current	N/A	N/A				
	Proposed	Ded ($1,000 per EE/RE, $2,000 per Fam); All claims after deductible 80%. Preventative Care not subject to annual ded. $5,000/$10,000 out-of-pocket max.	Promotes consumerism in health care, encouraging plan members to take a more active role in health care spending. Offers real choice between options at a lower cost for both employees and retirees. Further implementation of a full Consumerism Driven Health Plan will include a third plan option in 2007 and a potential Health Reimbursement Account.			-$120,000	
	Alternative		Retain current structure			+$120,000	

Note: A blank space indicates a neutral, Negligible, or non-applicable impact.

Plan Design Changes

Component	Option	Description	Analysis	Implications GASB Total	Implications GASB Annual	Implications FY05	Support Y / N
AARP Option	Current	N/A	N/A				
	Proposed	Group Coverage for over 65 retirees & spouses. Offers supplemental plans with or without prescription coverage. Plan supplements Medicare benefits resulting in coverage of Medicare deductible & balance of hospital stay.	Offers the over 65 retiree an additional option to purchase a supplement that may provide more medical benefits at a lower cost than the City's plan with Medicare coordination. Satisfaction levels are high nationwide, with benefits available wherever retirees reside.	-$30M	-$3.2M	-$100,000	
	Alternative		Retain Current Structure	+$30M	+$3.2M	+$100,000	
Medicare Part A	Current	N/A	N/A				
	Proposed	Pay for Medicare Part A for employees hired prior to 1986 if they do not qualify for Medicare at age 65.	The City currently has approximately 500 employees that were hired prior to 1986 that do not pay into Medicare. 10-15% of these individuals are projected to not qualify for Medicare through another source when turning 65. The City would pay for Medicare Part A, if they do not qualify. This would allow Medicare to pay first dollar of claims for those individuals instead of the health plan.				
	Alternative		Retain Current Structure				
Mental Health Parity	Current	N/A	N/A				
	Proposed	Include as a covered benefit on both EPO and HDP	Mental Health issues will be treated the same as any other illness and not subject to lower limits and co-insurance. It is critical to have a tightly integrated Employee Assistance Program Managed Mental Health program.			+$60,000 (cost)	
	Alternative		Retain Current Structure				

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Prescription Drug Changes

	Tiers	Co-Pay	Co-Insurance	Maximum Out-of-Pocket	Analysis	Implications GASB Total	Implications GASB Annual	Implications FY05	Support Y / N
Current	Tier 1 3 Tier 2 Tier 3	\$10 \$25 \$50	N/A	N/A	Current program utilizes 3 tiers of drug types, generic, brand-preferred and brand non-preferred, with specific dollar co-pays for each tier of medication. UHC plan utilizes full range of available retail pharmacies.				
Proposed	Tier 1 4 Tier 2 Tier 3 Tier 4	N/A	10% 20% 35% 50%	\$2,000 per person	Moving to the 4 tier program will move higher cost "specialty" drugs into a 4^{th} tier and will assist in capturing additional contribution for these high cost drugs. The maximum out-of-pocket caps the annual cost for employees and retirees. Additionally the recommendation includes utilization of the UHC premier network which will produce an additional 10% savings on dispensing fees and higher drug discounts. Moving to coinsurance and the addition of an out-of-pocket maximum will significantly reduce drug cost trend increases into the future. There will be no need to review and/or change co-pays on a recurring basis. Additionally, if costs are lower, premium contributions can be kept down and the sharing is done by those who actually use the benefit. Encourages consumer choice and the use of Tier 1 & Tier 2 drugs when effectiveness of treatment is not compromised.			-\$200,000	
Alternative 1	Tier 1 4 Tier 2 Tier 3 Tier 4		10% 20% 30% 40%	\$2,000 per person	Lower percentages, reduces cost to the employee and retiree, increases claim costs.			+\$30,000	
Alternative 2	Tier 1 4 Tier 2 Tier 3 Tier 4		10% 20% 35% 50%	\$1,000 per person	Lower the out-of-pocket maximum reduces the cost to the employee and retiree and increases claims costs.			+\$50,000	

Note: A blank space indicates a neutral, Negligible, or non-applicable impact.

Prescription Drug Examples

	Current Plan – Retail				Proposed Plan Retail	
	Avg. Drug	Employee Pays	Plan Pays	Avg. Drug	Employee Pays	Plan Pays
Tier 1	$30.00	$10.00 Co-pay	$20.00	$30.00	10% = $3.00	$27.00
Tier 2	$95.00	$25.00 Co-pay	$70.00	$95.00	20% = $19.00	$76.00
Tier 3	$200.00	$50.00 Co-pay	$150.00	$200.00	35% = $70.00	$130.00
Tier 4		N/A		$760.00	50% = $380.00	$380.00
		No out-of-pocket maximum			**$2,000 per person out-of-pocket maximum**	

	Current Plan – Retail				Alternative 1 Plan Retail	
	Avg. Drug	Employee Pays	Plan Pays	Avg. Drug	Employee Pays	Plan Pays
Tier 1	$30.00	$10.00 Co-pay	$20.00	$30.00	10% = $3.00	$27.00
Tier 2	$95.00	$25.00 Co-pay	$70.00	$95.00	20% = $19.00	$76.00
Tier 3	$200.00	$50.00 Co-pay	$150.00	$200.00	30% = $60.00	$140.00
Tier 4		N/A		$760.00	40% = $304.00	$456.00
		No out of pocket maximum			**$2,000 per person out-of-pocket maximum**	

	Current Plan - Retail				Alternative – 2 Plan Retail	
	Avg. Drug	Employee Pays	Plan Pays	Avg. Drug	Employee Pays	Plan Pays
Tier 1	$30.00	$10.00 Co-pay	$20.00	$30.00	10% = $3.00	$27.00
Tier 2	$95.00	$25.00 Co-pay	$70.00	$95.00	20% = $19.00	$76.00
Tier 3	$200.00	$50.00 Co-pay	$150.00	$200.00	35% = $70.00	$130.00
Tier 4		N/A		$760.00	50% = $380.00	$380.00
		No out of pocket maximum			**$1,000 per person out-of-pocket maximum**	

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Negligible, or non-applicable impact.

Rate Structure Changes

	Category	Rate Structure	Analysis	Implications GASB Total	GASB Annual	FY05	Support Y / N
Current	EE/RE Spouse/Child	Blended Blended	Currently all categories of employees and retirees are rated as one group. This does not account for the significant differences in claim experience among the categories of employees and retirees. Currently for actives and retirees over age 65, the health plan collects $1.00 for approximately each $.80 in claims. However on retirees under the age of 65, the health plan collects $1.00 for approximately every $2.00 in claims, which means the actives and retirees over age 65 subsidize the claims for that group.				
Proposed	EE/RE Spouse/Child	Experience Based Experience Based	By experience rating, each category becomes self-supporting and pays for its own claims experience. Experience rating becomes critical as it reduces future GASB liability by establishing experience related rates. Retirees over the age of 65 cost the City less than retirees under 65 because of their Medicare benefits which offset some of their claims and should be reflected in their rates.	-$6M	-$400K	N/A	
Alternative 1	EE/RE Spouse/Child	Experience Based Blended	The Employee/Retiree + spouse and the Employee/Retiree + Family rates go up, as spouse and Child rates continue to be blended. Retiree and employee pools would be experience rated and share cost based on experience as proposed See attached health rate examples.	+$500K	+$36K		
Alternative 2	EE/RE Spouse/Child	Blended Experience Based	The rates for the active employee and retiree over 65 would go up. The under age 65 group of retirees would remain at the lower rate and be supported by the active employees and retirees over 65. The spouse/child would be experienced rated and there would be a slight savings for those with children only.	+$5.5M	+364K		

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Rate Structure Premium Examples

Category	Current Plan	Proposed Plan	Change from Current	Alternative 1	Change from Current	Alternative 2	Change from Current
Employee Only	$385.23	$344.78	-$40.45	$344.78	$0.00	385.23	$0.00
Employee + 1	$809.13			$809.13	$0.00		
Employee + Spouse		$786.10	-$23.03			860.41	+$51.28
Employee + Child(ren)		$679.22	-$129.90			786.00	-$23.13
Employee + Family	$1117.20	$1068.82	-$48.38	$1117.20	$0.00	1176.00	+$58.80
Retiree over 65	$385.23	$344.78	-$40.45	$344.78	-$40.45	385.23	$0.00
Retiree +1	$809.13			$809.13	$0.00		
Retiree + spouse		$786.10	-$23.03			860.41	+$51.28
Retiree + child		$679.22	-$129.90			786.00	-$23.13
Retiree + Family	$1117.20	$1068.82	-$48.38	$1117.20	$0.00	1176.00	+$58.80
Retiree under 65	$385.23	$689.56	+$304.33	$689.56	+$304.33	385.23	$0.00
Retiree + 1	$809.13			$1529.01	+$719.88		
Retiree + Spouse		$1572.20	+$763.07			860.41	+$51.28
Retiree + Child(ren)		$1358.44	+$549.31			786.00	-$23.13
Retiree + Family	$1117.20	$2137.64	+$1020.44	$2111.51	+$994.31	1176.00	+$58.80

Rates for Alternatives 1 and 2 are estimates only.

Note: A blank space indicates a neutral, Negligible, or non-applicable impact.

Eligibility for Retiree Benefit Subsidy

	Grandfather	Age Criteria	COA minimum years of service	TMRS Service Required	Analysis	Implications GASB Total	Implications GASB Annual	Implications FY05	Support Y / N
Current	N/A	N/A	10 years cumulative service	20 years	Employees are able to leave the City at any age if TMRS eligible, after 10 years of service, and keep a medical subsidy for life. Since current retiree contributions are low, retirees may stay on the City's plan even if other coverage might be available. This creates higher health care costs for the plan because "early" retirees typically incur 2X the expenses of active employees.				
Proposed	Employees with 5 years or more maintain current eligibility standard	55	15 years cumulative service	20 years	Grandfathering proposal affects less than half of the active population versus 10 years of service which affects over 70% of the population. The age criteria and years of service represent the most common criteria as represented by research. Currently 88% of organizations in Hay's General Industry Benefit Review have an age requirement of 55 or older, and 23% of organizations have a 15 year service requirement or longer.	-$10M	-$1.2M	N/A	
Alternative 1		55	10	20 years		+3.3M	+$400K	N/A	
Alternative 2		50	15	20 years		+2.0M	+$200K	N/A	
Alternative 3		50	10	20 years		+6.8M	+$800K	N/A	

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Contribution Philosophy - Employee

	Employees	Dependents	Analysis	Implications GASB Total	Implications GASB Annual	Implications FY05	Support Y / N
Current	79%	79%	Currently, the employer contribution for the nine Metroplex cities range from 86% to 97%, with an average contribution rate of 90% in other local area cities. This puts the City of Arlington's contribution for current employees compared to the average at 11% below the local market average.				
Proposed	90%	50%	By increasing the contribution for active employees, the City is recognizing that the employees are the foremost consideration in developing a contribution strategy. Subsidy for spouses and children is secondary with many employee spouses having employment elsewhere with coverage available through their employer.			-$280,000	
Alternative	90%	70%	Decreases the employee contribution by increasing subsidy on dependents.			+$193,000	

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Negligible, or non-applicable impact.

Contribution Philosophy - - Retiree

	Retiree	Analysis	Implications GASB Total	 Annual	 FY05	Support Y/N
Current	30 yr RE – 100% 25 yr RE – 90% 20 yr RE – 80% 15 yr RE – 70% 10 yr RE – 60%	Levels of subsidy are significantly higher than the market, especially in non-governmental organizations where FASB was implemented in 1990's. More generous contribution than most Texas cities are providing, especially with 25+ years of service. Higher participation on the City's health plan because of the subsidy rates and low cost which impacts the future GASB liability.				
Proposed	30 yr RE – 85% 20 yr RE – 70% 10 yr RE – 50%	Significantly decrease GASB liability. Subsidy levels are more in line with the market.	-$5M	-$167,000	-$32,400	
Alternative		Maintain current structure	+5M	+$167,000	+$32,400	

Note: A blank space indicates a neutral,
Negligible, or non-applicable impact.

Contribution Philosophy - - Retiree Dependent

	Dependent	Analysis	Implications GASB Total	Annual	FY05	Support Y / N
Current	70%	Retirees are currently provided with a subsidy for their spouse and dependents at 70%. Combined with the current retiree subsidy, for a 30 year retiree, the City contributes 84% of the total premium for a retiree and their dependent, and 80% on family coverage. This provides a benefit that is more than that currently provided for active employees.				
Proposed	0%	Market data supports the proposed 0% contribution for retiree dependents. Five of the ten Metroplex cities currently do not offer a dependent subsidy for retirees. The market remains a "moving target" as the City moves forward. Trend and peer survey support that municipalities who have not yet addressed this issue are currently considering it and the same direction.	-$46M	-$1.5M	$327,600	
Alternative 1	50%	Reduces Retiree expense, increases cost to the city's contribution. Higher GASB liability and exceeds the market for retiree dependent subsidy.	+25.5M	+850KM	+180,000	
Alternative 2	25%	Same as above.	+12.75M	+$425KM	+90,000	

Note: A blank space indicates a neutral, Negligible, or non-applicable impact.

Subsidy Grandfather Options

Grandfather Options	Benefit effected	Analysis	Implications GASB FY05 Tot Annual		Support Y / N
Grandfather Current Retirees & Active Employees who meet the proposed eligibility definition (age 55, 15 years of service) as of January 1, 2005	Subsidy Structure	This alternative would not affect employees with less than 5 years of service. Demographic information would show that those individuals new to the workforce do not have the same propensity to stay with one employer until retirement age. These employees would participate in the new eligibility criteria and subsidy recommendation. Those employees as of January 2005 who meet the proposed eligibility definition (55 & 15) would be grandfathered along with the current retirees. The biggest impact of changing the eligibility standard and subsidy structure would be on the GASB liability. Some employees currently eligible for retirement, but not eligible under the new parameters, may be motivated to do so prior to January 1.	Actuary is currently calculating the impact.		

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